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Dollar Lacks Backers as Deficit Worries Dominate

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What is going to prop up the sliding dollar?

Despite unexpectedly strong job creation and another jump in the stock market, the dollar dropped against key currencies on Friday, breaking through the record low against the euro set nine months ago.

FOREX VIEW

Currency strategists say the dollar's inability to capitalize on news of 337,000 jobs created in October reveals the market's skepticism about whether a second term for President Bush will reverse deficit spending and a record current-account deficit, the broadest gauge of the nation's balance of payments.

Many outside the U.S. fear that last week's election results, which returned Mr. Bush to the White House and gave Republicans firm control of Congress, will give the government even more latitude to spend, worsening the deficit.

Investors are keeping a wary eye out for government moves to support the U.S. currency. Actual central-bank intervention in foreign-exchange markets doesn't appear imminent. And the lack of actual intervention "is going to make any verbal intervention less scary," said Stephen Jen, a currency strategist at Morgan Stanley.

European officials haven't appeared overly concerned about recent exchange rates. And there is the perception among currency traders that the U.S. is happy with a weak dollar and the competitive advantage it brings for U.S. industry.

That could leave it to Japan to take a stand to protect its exporters from being priced out of U.S. markets by the rising yen. Japanese Finance Minister Sadakazu Tanigaki repeated his warning that he is ready to take action against the yen's strength if needed.

On Friday in New York, the euro hit a record of $1.2968 and ended at $1.2966, up from $1.2872 late the previous day. Two months ago, the euro traded at about $1.20. The euro had slipped below parity with the dollar soon after its launch in 1999. The euro's previous record—$1.2925—was set in February.

The dollar also slid against Japan's currency, ending in New York at a 6½-month low of 105.59 yen, down from 106 yen late Thursday.

Currency experts warn that, with no end to the slide in sight, even traditional buyers of U.S. stocks and bonds such as foreign central banks and international money managers may be becoming less willing to finance the U.S. current-account deficit. As the current-account deficit expands, it effectively requires foreigners to purchase U.S. assets to help redress the balance. But some observers caution that the traditional buyers of those assets could demand higher interest rates, a cheaper dollar (so the assets are cheaper to buy) or a combination of the two.

The dollar selloff "is becoming increasingly broadly based," said Mansoor Mohi-uddin, chief currency strategist at UBS in London. "It's not just short-term speculators but also medium-term asset allocators," said Mr. Mohi-uddin, who predicts the euro will trade at $1.40 within 12 months.

In coming weeks, investors will look for indications regarding how Mr. Bush plans to run the country's finances in his new four-year term.

But few expect a turnaround in the dollar's fortunes anytime soon. "What needs to happen to make people more positive about the dollar can only happen slowly," said Aziz McMahon, a senior currency strategist at ABN Amro in London.

Indeed, when the dollar fell sharply during an 18-month period a decade ago and hit a record low against the German mark, considered the anchor of what became the euro, it took about two years for the dollar to recover. As now, investors worried about U.S. budget and current-account deficits. Only after investors saw that the U.S. government curbed its spending did the dollar turn around convincingly. It continued to surge into late 2000.

The euro went through its own confidence crisis a few years ago. It was valued at less than $1 for about 2½ years between 2000 and mid-2002.